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SPECIAL ANALYSIS

POLAND: Economic Priorities

Poland's economic goals revealed in the plan for 1981 are dictated by the overriding need to calm worker unrest in order to keep the Soviets out and get the country back to work. Under the circumstances, Poland cannot present Western creditors with a coherent program. Warsaw is relying on Western governments to provide politically motivated aid to help pay its import bill and cover its financial obligations.

In line with the commitments it has made to the workers since midyear, the regime projects large increases in money income for all segments of the population. Drastic cuts in investment--presumably to free resources for other uses--also are planned, but investment in housing and spending on health, educational, and cultural facilities are scheduled to rise.

The leadership evidently is determined to hold the line on consumer prices, particularly those for food. Finance Minister Krzak told the legislature that subsidies for food will rise by 40 percent in 1981 to permit higher prices for farmers and to keep retail prices stable. For the first time under the Communists, the Polish budget projects an excess of expenditures over revenues, as only token measures to hold down government spending are planned.

More Economic Drift

While Warsaw demonstrates its sensitivity to popular feelings concerning pay, hours of work, and union rights, the economy continues to drift. What the government presented to the legislature last week was not so much a plan as a collection of goals and predictions. A comprehensive plan will not be completed until spring at the earliest.

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The government has warned that national income will again fall in 1981, as it did in 1979 and 1980, and that industrial production will at best equal the level of 1980. Although Planning Chief Kisiel says the availability of consumer goods as a whole will rise by 2 to 3 percent in 1981, supplies of meat and other foodstuffs are likely to fall. Inflationary pressures will be severe again, because the increase in consumer goods supplies will be far less than the 18-percent rise expected in personal incomes.

Balance of Payments

Warsaw has reduced the priority it gives to improving Poland's international financial position. The hard currency balance-of-trade deficit in 1980 probably totaled at least \$1.5 billion, and an even larger hard currency deficit--at least \$2 billion--seems likely in 1981.

The value of imports is certain to rise since Warsaw--fearing the adverse political impact of a decline of imports on consumption and production--will strive to maintain real imports at least at current levels. Meanwhile, the outlook for exports is gloomy because of production bottlenecks and the need to keep coal and food at home.

The leadership seems designed to larger trade and current account deficits.

Polish officials recognize that meeting borrowing requirements of this magnitude will require massive foreign aid, and they have been scrambling to line up assistance for several months. Poland has already received over \$2 billion in aid from the USSR--some of which was used in 1980--and perhaps a few hundred million dollars from other East European countries. Warsaw also is requesting over \$10 billion in various types of assistance from Western governments, mostly bilateral reschedulings and government-backed credits.

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Few commitments have been received, although Western countries have been generally sympathetic to Polish appeals for aid because of the contribution that aid can make to political stability in Poland and to the profits of domestic exporters. Poland's failure to win solid pledges of large amounts of assistance is partly due to the inability of Western countries to fashion a common plan for aiding Warsaw and to Western doubts that Poland will ever put its finances in order.

Outlook

Even if politically motivated labor strife subsides for a time, the potential for civil unrest will persist over the next several months as economic conditions worsen. Warsaw is unlikely to receive as much aid as it needs, and the aid provided will be slow in coming. Domestically, investment cuts will not quickly permit increases in the supply of consumer goods, and the concessions won by the workers will also hinder production.

The population has tolerated considerable economic hardship, however, and there is a reasonable chance that this mood of acceptance will continue for at least several more months.

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Economic Activity

Warsaw announced this week that livestock inventories on private farms--which raise three-fourths of the country's cattle and hogs--have fallen substantially. Preliminary results of the census in January indicate that the number of cattle dropped 7.5 percent from levels of a year ago, while hogs declined by 14.3 percent--the sharpest drop since the mid-1970s.

Two consecutive poor grain harvests coupled with this year's disastrous fodder crops caused the decline. The Poles expect meat production to fall by at least 10 percent in 1981 after an estimated 5-percent drop last year.

Since Poland apparently is reluctant to cut meat exports for fear of losing markets and planned meat imports will not be sufficient to offset lower production, per capita consumption will fall below the level of 1980. Shortages of other foodstuffs will compound dissatisfaction over meat shortages.

Military Exercises Scheduled

The Soviets and their Warsaw Pact allies are entering a portion of their troop training cycle in which the high levels of exercise activity in Eastern Europe between late January and late March will complicate our ability to provide warning of an impending military intervention. We believe, however, we would be able to distinguish this activity from normal training because of the greater size of a large intervention force, the communications network necessary to control it, and the extensive mobilization and logistic preparations involved.

The Soviets are also expected to conduct exercises involving their front and theater forces in the western USSR during February and March. These General Staff - controlled exercises typically include field training and the testing of new equipment, tactics, and command echelons.

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